GRANT PROGRAMS

GRANT PROGRAM A
BECC Technical Assistance

GRANT PROGRAM B
NADB (IDP)

GRANT PROGRAM C
NADB (BEIF)

GRANT PROGRAM D
GTN (USAID)

GRANT PROGRAM E
USDA

TECHNICAL ASSISTANCE FOR BORDER COMMUNITIES

BORDER ENVIRONMENT COOPERATION COMMISSION

INTRODUCTION

The Technical Assistance Program of the Border Environment Cooperation Commission (BECC) assists communities in planning and designing water supply, wastewater treatment, solid waste and other improvement projects along the U.S.-Mexico border. Funding for the water-related projects comes from the U.S. Environmental Protection Agency (EPA). The current funding level for water-related projects is U.S. $10 million. Solid waste and related projects are managed under a separate portion of the program and may receive assistance through the BECC budget or other funding sources. This manual defines the program and eligibility requirements, and provides guidance on the process for applying for technical assistance in addition to the responsibilities of communities who receive assistance under the program.

DESERT REGION NEAR THE U.S.-MEXICO BORDER.

BENEFITS OF TECHNICAL ASSISTANCE

Many border communities do not have the resources and, often, the administrative capability to finance and carry out a project development program. Without the resources to undertake preliminary engineering and design studies that would find solutions to their environmental problems, many communities would not be able to obtain BECC certification. BECC's Technical Assistance Program will fill this void by:

- providing grants to communities for technical assistance;
- providing communities with the assistance necessary to manage infrastructure projects; and
- assisting communities to obtain BECC certification which will allow them to become eligible for funding consideration from the North American Development Bank (NADB) and/or other funding sources.

BECC CERTIFICATION PROCESS

The BECC Technical Assistance Program is designed to help an eligible community achieve BECC certification for an infrastructure project. BECC certification indicates a proposed project is economically and technically viable, environmentally sound, and has support from the public. Certification is required in order to receive consideration for NADB financing and EPA grant funding for final design and construction. Exhibit 1 provides an overview of the BECC certification process, including the role of technical assistance. Interested communities are strongly encouraged to communicate with BECC' staff to discuss proposed projects before completing BECC's Step I and Step II applications, explained below.

Step I: The project sponsor completes the Step I Application Form to provide general information about the proposed project. The BECC reviews the Step I application to determine whether the project conforms with the objectives of the BECC and whether the project sponsor will need technical assistance in preparing the detailed information required in Step II.

Step II: The project sponsor completes the Step II Application Form by providing detailed information about the proposed project and demonstrating that the project meets BECC's certification criteria. To avoid duplication of effort, the project sponsor may use existing project information to complete the Step II Application Form.

The two-step process for obtaining BECC certification is designed to be as straightforward as possible. However, because the BECC requires detailed information about a project to demonstrate that it meets the BECC certification criteria, some communities may find the certification process challenging. The technical Assistance Program will help project sponsors prepare the necessary information to comply with BECC criteria shown in Exhibit 2.

EXHIBIT 1: ROLE OF TECHNICAL ASSISTANCE IN THE BECC CERTIFICATION PROCESS

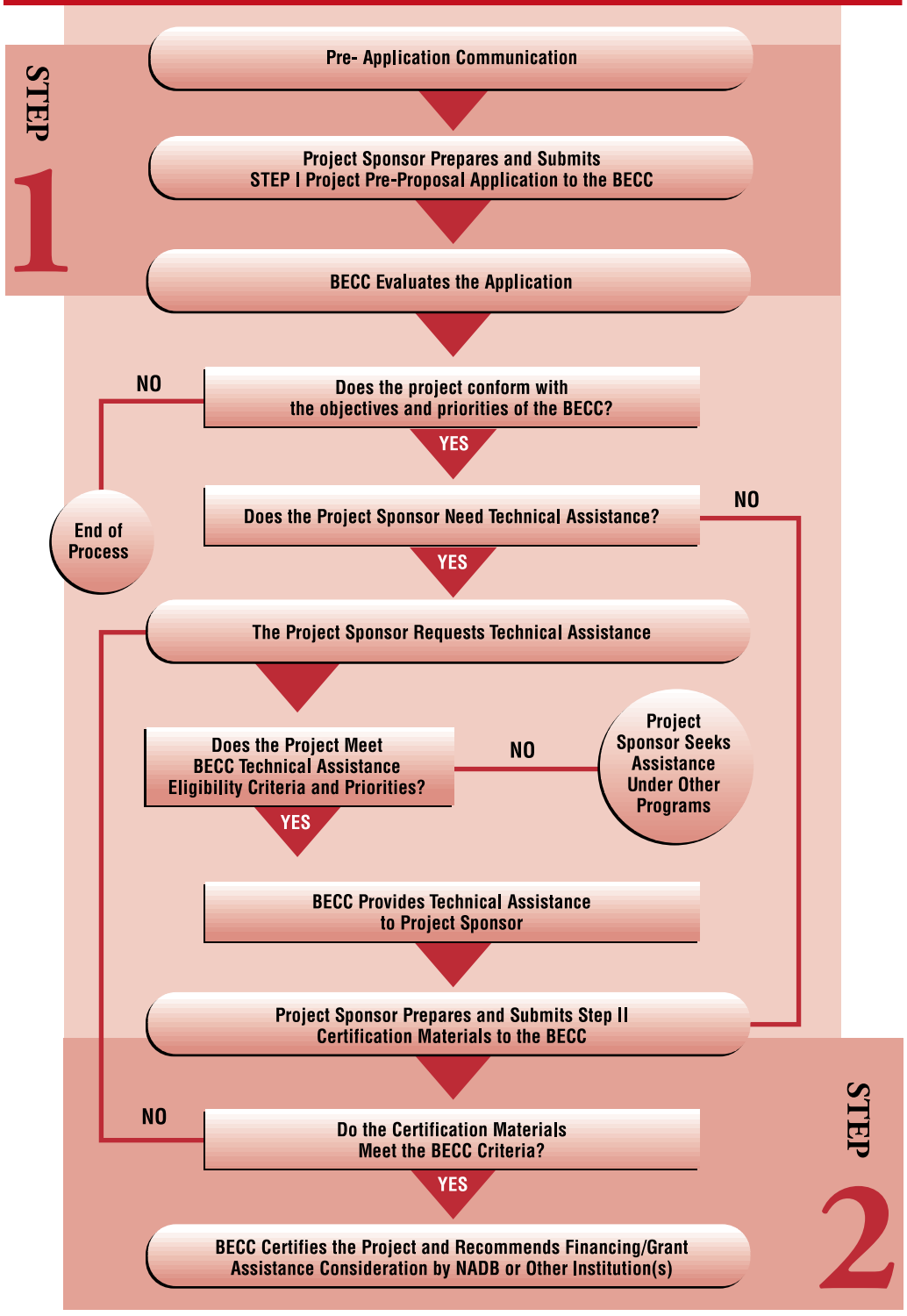

EXHIBIT 2: SUMMARY OF BECC CERTIFICATION CRITERIA

1. General. The project must 1) be water supply, wastewater treatment, municipal solid waste, or other related project; 2) be located within 100 km (62 miles) of the U.S.-Mexico border or found by the BECC to remedy a transboundary health or environmental problem; 3) include a project description and work tasks that are realistic in order to complete the project as planned; and 4) conform with international treaties and agreements.

2. Human Health and Environment. The project must 1) address a human health or environmental need and provide a high level of environmental protection; 2) present an environmental assessment to the BECC; and 3) comply with applicable environmental and cultural resource laws and regulations.

3. Technical Feasibility. The project must 1) utilize appropriate technology[1]; 2) include an operation and maintenance plan; and 3) comply with applicable design regulations and standards.

4. Financial Feasibility and Project Management. The project must 1) have revenues that are sufficient to cover debt amortization; as well as operation and maintenance costs, with an appropriate safety margin; 2) demonstrate that the proposed fee/rate model will produce the cash-flow to support debt service requirements as well as operation and maintenance costs; and 3) demonstrate that it has the capacity to provide service at a reasonable price, implement and operate capital improvement programs independently, and undertake necessary accounting and financial reporting.

5. Community Participation. The applicant must 1) submit and implement a BECC-approved Community Participation Plan including a local steering committee, meetings with local organizations, public access to project information, and at least two public meetings; and 2) submit a report to the BECC demonstrating public support for the project.

6. Sustainable Development. The project must l) adhere to the BECC definition and principles of sustainable development[2]; 2) demonstrate existing ability, or have a plan to strengthen the ability of the community for long-term support and maintenance of the project, including measures to build human and institutional capacity, 3) conform with applicable local and regional conservation and development plans; 4) achieve a Reasonable degree of natural resource conservation; and 5) have a positive impact on community development.

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[1] Technology which closely matches the level of ability of the local user to operate and maintain the system without creating dependency on high levels of resource inputs from outside the community and without adding significant stress to the environment of the social fabric of the community.

[2] Conservation oriented social and economic development that emphasizes the protection and sustainable use of resources, while addressing both current and future needs, and present and future impacts of human actions as defined in the Border XXI environmental program developed by U.S. and Mexican authorities.

HOW TECHNICAL ASSISTANCE WORKS

Project applicants interested in obtaining technical assistance should write a brief letter to BECC staff requesting technical assistance and submit a Step I application (see Exhibit 3). The Step I application and letter of request for Technical Assistance must include the following information:

- Basic Information - general information about the project, such as the name of community, the type of project, and description of the project.

- Project Development Assistance Information - a description of the type of technical assistance that a community needs and, if possible, the estimated costs of that assistance. Cost estimates should include supporting documentation of how they were developed.

- Letter of Support by Governing Body - a letter by the community's governing body indicating support for the community to request technical assistance and certification.

- Signature - the application should be signed by the community's highest ranking official or person delegated to request assistance and/or certification on behalf of the community. A copy of the written delegation must accompany the application unless included in the letter of support for the project by the governing body.

The BECC technical person responsible for the project will assist the community in determining whether an intergovernmental review is required. For projects located in Mexico, Mexico's National Water Commission (CNA) or Secretary for Social Development (SEDESOL) may want to review the application before BECC acts on the request. In addition, some state governments, in both the U.S. and Mexico, may require that they have an opportunity to comment on the applicant's request and/ or project. BECC staff will assist the project sponsor in obtaining the necessary intergovernmental reviews.

After receiving a request for technical assistance, the BECC will review the information to determine the eligibility of the project for technical assistance (see eligibility requirements below) and the appropriate role of the project sponsor in the solicitation and management of technical consultants (based on the applicant's stated interest and capabilities).

During this process, the BECC will consult with CNA and SEDESOL for Mexican projects and the appropriate U.S. state for U.S. projects. If a project is approved, the BECC will enter into a grant agreement with the project applicant. The grant agreement between the BECC and the project sponsor will specify the role and responsibilities of the project sponsor during the technical assistance process.

The BECC Managers and Board of Directors have the authority to approve grants of up to U.S. $500,000 for technical assistance. Grants in excess of this amount require approval from the EPA and the BECC Board of Directors. Funding for technical assistance will be limited to one grant per community peryear. Additionally, grants for final design engineering assistance will be subject to a determination that the applicant qualifies under the NADB's Border Environment Infrastructure Fund Protocol.

Usually, project applicants will work with a consultant from BECC's pre-qualified list of consultants. In certain cases, an applicant may retain its own consultant, if the consultant was selected in an open, competitive process prior to the establishment of BECC's pre-qualified list of consultants. Such consultants will be evaluated by BECC to ensure they meet BECC technical and experience requirements. Project applicants performing their own procurement will be required to track and report

technical and financial progress and request payment from the BECC to pay consultant's fees. If a community lacks the resources to manage the project, the BECC and/or an external consultant will provide assistance in this area.

The project sponsor also may be responsible for performing close-out activities at the conclusion of obtaining technical assistance, and for maintaining project-related records. Guidance on these activities will be provided by the BECC to project Applicants under separate cover.

EXHIBIT 3: OVERVIEW OF THE TECHNICAL ASSISTANCE PROCESS

HOW CAN TECHNICAL ASSISTANCE BE USED?

Technical assistance grants can be applied to a number of activities that will enable a community to achieve BECC certification. Technical assistance is available to support three major categories of activities: (1) concept development; (2) project development; and (3) final design. See Exhibit 4 for examples of these activities.

1. CONCEPT DEVELOPMENT

Technical assistance grants can be utilized for activities related to development of project concept. The process is intended to provide an initial indication that a project is in general agreement with BECC guidelines and criteria for project certification. Activities that would help a community identify a potential project include preliminary planning to evaluate alternatives and identification of the best alternative to define the project, preliminary feasibility studies, site evaluations, public outreach, and identification of issues related to the development of BECC's application for certification. Projects that cannot be made consistent with BECC's guidelines and criteria for certification will not be given consideration for further technical assistance.

2. PROJECT DEVELOPMENT ASSISTANCE

Technical assistance grants can be utilized for activities related to development of BECC's Step II application. The process is intended to provide assistance to fully develop documentation of project compliance with BECC's Project Certification Criteria. Activities can include project- specific capacity building to address certification criteria, preliminary engineering studies, environmental assessments, technical feasibility studies, financial feasibility and project management studies, preliminary design (maximum 30% design level), development of operation and maintenance plans, and other tasks as related to the development of BECC's Step II application process. Requests for Project Development Assistance will only be considered after the BECC's Step I application has been approved. Only projects which have the potential for conforming to BECC's certification guidelines and criteria will be given consideration for Project Development Assistance.

3. FINAL DESIGN ASSISTANCE

Technical assistance grants can be utilized for completion of final plans and specifications necessary for commencement of construction activities. Construction phase services are specifically excluded. Only projects which have been BECC certified and can provide evidence of an initial commitment of funds for construction and meet NADB's Border Environment Infrastructure Fund Protocol will be given consideration for Final Design Assistance.

EXHIBIT 4: EXAMPLES OF ACTIVITIES THAT ARE ELIGIBLE FOR TECHNICAL ASSISTANCE.

Communities may receive technical assistance to conduct several different types of activities or program requirements, including developing:

- **Environmental Assessment Studies (EAS)**—These studies identify the positive and negative consequences on the environment as a result of the project (or project options) under consideration, and should identify measures for mitigating any negative impacts.

- **Technical Feasibility Studies**—These studies analyze and summarize the nature and level of technology necessary for ensuring that the project can be implemented. The technological feasibility should demonstrate that the user is capable of operating and maintaining the systems without creating dependency on high levels of resource inputs from outside the community and without adding significant stress to the environment or the social fabric of the community.

- **Economic and Financial Feasibility Studies**—These studies address how the project will be financed and will maintain financial solvency for the duration of the projects lifetime. These studies include general financial information such as: expected cash flows, income statement, and source(s) of financing; budgets, including fixed and variable costs for planning, construction, operations, and maintenance; sensitivity analyses that identify the impacts on the projects by changes in financial variables; break-even analyses that identify the level of revenues at which the project will recover costs; and the economic benefits of the projects, especially in terms of community benefits.

- **Preliminary Engineering Studies**—These studies assess technologies identified in the technical feasibility studies to determine which are viable. These studies typically include project specifications, technical processes, quality control programs, and other data to demonstrate that the engineering principles behind the proposed project are valid and achievable.

- **Evaluations of Social and Sustainability Aspects of Projects**—These evaluations describe how the project sponsors solicited public involvement in all phases of project design and implementation, a description of local environmental services (e.g., water/wastewater systems currently in place), potential economic impacts of the proposed project, impacts on cultural resources (including historical, archeological, and ethnic resources), and, as appropriate, other significant social impacts that may result from project implementation.

- **Public Outreach Programs**—Communities must demonstrate that they have solicited public involvement during all phases of project activity, from project design to shutdown and deconstruction. Communities must develop a Comprehensive Community Participation Plan that will include the following components: a local steering committee; a schedule or process to assure a dialogue with local organizations; and a schedule or process that assures public involvement, including a minimum of two public meetings.

- **Project Final Designs**—These designs will be used during the construction and implementation of the project. These designs should be specific and detailed and clearly identify the technologies, process, equipment, and procedures that will be used during the construction, operation and maintenance, and closure of the project.

- **Operation and Maintenance Programs**—The operations and maintenance program plan addresses the community's plan for start up operations, contingency planning, general operation and maintenance relating to the project, safety programs, emergency plans, pollution prevention plans, and closure and post-closure plans.

Contact Information

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C.P. 32470

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U.S. P.O. Box:
P.O. Box 221648
El Paso, Texas 79913

Tel: (011-52-16) 25-91-60
Fax: (011-52-16) 25-61-80
E-mail: (enter employee's name)
@cocef.org
Home Page: http://www.cocef.com

TECHNICAL ASSISTANCE ELIGIBILITY REQUIREMENTS

Funding is limited to one grant per community per year. To be eligible for technical assistance, a project sponsor must demonstrate the intention of obtaining BECC certification for the proposed project and also must meet the following requirements:

- the project must be a water supply, wastewater treatment, solid waste, or related project;
- the project must have the potential to obtain BECC certification;
- the project must have interest and support from local authorities as demonstrated by the passage of a resolution, or other statement of commitment, indicating community and financial support for a project; and
- the project sponsor must be a public entity.

For final design, technical assistance requests must comply with the following:

- BECC certification;
- demonstration of initial commitment for construction money; and
- a determination that the applicant qualifies under the NADB's Border Environment Infrastructure Fund Protocol.

WHAT ACTIVITIES ARE NOT ALLOWED?

Technical assistance is available only for completing pre-approval requirements, project planning, and design activities. Grant funds cannot be used for actual project construction or any of the following activities:

- procurement or acquisition of parts and materials used in the construction of projects;
- purposes of establishing and maintaining a longterm monitoring program;
- private only projects;
- political activities such as lobbying/advocacy purposes; influencing legislation before Congress; or
- actions that could influence the outcome of a regulatory or adjudicatory action.

For more information about the BECC's Technical Assistance Program or the process for obtaining BECC certification, please contact the Director of Technical Assistance at the address listed on the left hand margin.

NORTH AMERICAN DEVELOPMENT BANK
INSTITUTIONAL DEVELOPMENT COOPERATION PROGRAM (IDP)

The North American Development (the Bank) was created by the United States and Mexico to provide financial assistance in solving environmental infrastructure problems along their shared border. Focusing its efforts on water, wastewater and municipal solid waste projects, the Bank's overall goal is to provide a clean, healthy environment in the border region by fostering a gradual transition from fully-subsidized projects to integrated, sustainable and fiscally-responsible projects, financed under competitive market conditions.

Since environmental infrastructure projects are complex, expensive to develop and difficult to manage, the need to maximize the operating conditions of existing utility systems is critical. Many public utilities in border towns in both countries, especially in small, low-income communities, have neither the solid institutional structure nor the financial capacity to undertake studies and implement reforms that would enable them to meet community needs adequately. In addition, there is a clear need to improve the credit rating and the quality of the projects and their sponsoring agencies in order to restructure municipal financing and channel more private capital to relevant projects.

To help address these needs, the Bank has created the Institutional Development Cooperation Program (IDP) as a crucial complement to its loan and guaranty program.

OBJECTIVE

The IDP is designed to assist municipal public utilities achieve effective and efficient operation of their water, wastewater treatment, municipal solid waste, and related services by reinforcing their institutional capacities, and thus create a stronger financial foundation that will support the development of future infrastructure.

The IDP complements and works in close coordination with other development programs, including the Project Development Assistance Program (PDAP) administered by the Border Environment Cooperation Commission (BECC).

CRITERIA

ELIGIBILITY

Public utilities dedicated to water wastewater, or municipal solid waste management located within 100 kilometers of the U.S.-Mexico border are eligible to receive support.

PRIORITIES

Priorities have been established based on the program's objectives, giving special preference to public utilities with viable projects that have failed to gain broader support due to institutional deficiencies.

Priority will be given, in the following order, to eligible utilities that have:

1. a BECC-certified project and need institutional strengthening to facilitate financing; or
2. submitted a Step I BECC certification application and need institutional strengthening to facilitate certification and financing; or
3. preliminary projects targeted at small, low-income communities and need institutional strengthening; or

NOTE:

Receiving Bank assistance through the IDP or any other Bank sponsored assistance program does NOT imply or guarantee Bank project funding.

To receive more information about the Institutional Development Cooperation Program, please submit the information sheet found in Appendix C to:

North American Development Bank Department of Project Development and Finance
203 S. St. Mary's, Suite 400
San Antonio, TX 78205
Phone: (210) 231-8000
Fax: (210) 231-6232
http://www.nadbank.org

4. a need for assistance in strengthening their institutional capacities, but do not have a specific project; or
5. a need for institutional strengthening in order to enhance privatization efforts.

Specific project priority will be reviewed in conjunction and cooperation with federal, state, and local authorities and the BECC.

IMPLEMENTATION

The IDP will be implemented in two phases. During its initial phase, Bank personnel and resources will be dedicated, if necessary, to system reviews and evaluations of eligible utilities at no cost to the community served. In the second phase, a plan of action will be devised to address the needs of each utility based on the results of this evaluation, and resources may be allocated to improve information and administrative systems, provide training, and enhance other areas that have an impact on the financial structure of the utility.

PHASE I:

SYSTEM EVALUATION

Assistance will initially be given to prepare system evaluations of the public utilities and other related studies.

The following areas are covered in the system evaluation:

Infrastructure: The infrastructure analysis determines the current status of the existing infrastructure, assesses projects under evaluation or construction, and evaluates future requirements. In the case of water supply, the following areas are included: water collection, conveyance, storage and control, treatment, pumping, distribution networks and connections. Wastewater may involve the following areas: sewer lines and collectors, pumping, drainage, sources of discharge and discharges. In the management of municipal solid waste, the following areas are covered: collection, transport, treatment, recycling, disposal and reuse.

Technical-Operating Factors: The technical and operating factors to be studied include: operation, maintenance and conservation policies and procedures; technology and equipment; inspection and control systems; leak detection and management; metering equipment; repairs; and databases for networks and for supervising sources of supply.

Commercialization: The evaluation of commercialization issues includes characteristics and trends in the user registry and demand; rate policies and schedules; the procedures for metering, reading and billing; collection procedures, historical data, controls and reports; policies and control of overdue accounts, delinquent accounts and penalties; customer service; public awareness campaigns; and marketing.

Planning, Organization and Administration: The planning, organization and administration evaluation will study the legal provisions in force; by-laws and the regulatory and institutional framework; planning system; organizational structure and development; procedure manuals; personnel policy; fixed assets, material resources and inventory policy and control; procurement and contracting policy and control; information systems and networks; decentralization, communication and delegation arrangements and administrative controls; and management and efficiency indicators.

Budget and Accounting: The budget and accounting studies will examine accounting procedures, accounts and reports; programming, budget and control systems; audits; fiscal framework; and analysis and control of balance sheets and income statements.

Finances: The evaluation of finances will consist of analyzing the system of financial data collection, projections, and reports; financial parameters and ratios; rate and risk analysis; reserve and investment policies; and the possible use of assets or income as collateral.

Privatization Processes: In the event a utility is being considered for privatization or concession, the analysis of the privatization process will examine the types of participation and contracts; regulatory framework; prequalification system; design of competitive and transparent processes; elements to be privatized; and all provisions, restrictions and penalties.

PHASE II:

PLAN OF ACTION

Based on the system evaluation, a plan of action will be formulated in coordination with the local authorities to help the utilities increase their managerial, operational, and service efficiencies. The main objective of the plan of action is to help utilities establish sound financial and managerial infrastructure and thus increase their operational capabilities, long-term credit capacity, and ability to deal with future system requirements.

INFORMATION SYSTEMS AND DATA COLLECTION EQUIPMENT

When a system evaluation indicates that improvements are required in the information and data collection systems, the IDP can provide computers and other information systems equipment. This type of assistance is primarily aimed at developing or improving the metering, collection, accounting, and administrative systems. Training in the use of the new equipment and in the implementation of new procedures may also be provided under this program. .

OPERATION

Assistance will be subject to the availability of funds. System evaluations may be conducted by Bank personnel or by external consultants hired by the Bank. The procurement of any goods and services under the program will be carried out in accordance with the Bank's procurement policies and procedures.

COOPERATIVE ASSISTANCE

The IDP can help identify other assistance programs and sources of information regarding additional funding, technologies, technical and administrative training, water conservation measures, planning, and other related issues. Due to the alliances that the Bank has formed with other organizations, the Bank can facilitate integration of these support programs and funding sources to complement IDP assistance and other Bank operations. The system evaluation can determine whether or not a utility is eligible to receive assistance from other programs; and if so, guidance will be provided on how to request such assistance.

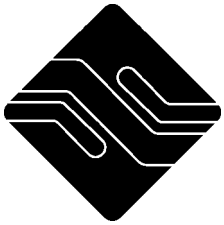
COOPERATION OF UTILITIES

Development of the system evaluations and action plans requires the full cooperation of the utilities, which must ensure complete access to all pertinent information and sign a cooperation agreement with the Bank.

NORTH AMERICAN DEVELOPMENT BANK

PROTOCOL FOR APPLICATION OF EPA AFFORDABILITY GUIDELINES
TO U.S. WATER AND WASTEWATER PROJECTS UNDER THE

BORDER ENVIRONMENT INFRASTRUCTURE FUND(BEIF)



This protocol is updated periodically based on experience in applying it to diverse projects.
Any changes must be approved by EPA.

1st edition - July 1997

TABLE OF CONTENTS

INTRODUCTION

PROTOCOL

This protocol was developed by the North American Development Bank (Bank) to explain the analysis used to apply United States Environmental Protection Agency (EPA) affordability guidelines to water and wastewater projects on the U.S.-Mexico border seeking grant assistance from the Border Environment Infrastructure Fund (BEIF). This protocol is directed to projects in the United States. EPA's affordability guidelines were issued by memorandum dated March 28, 1997, under the signature of Robert Perciasepe, Assistant Administrator, and are included in Appendix B of this protocol.

THE BEIF AND ITS PURPOSE

THE BORDER ENVIRONMENT INFRASTRUCTURE FUND

The Bank has established a Border Environment Infrastructure Fund to administer nonreimbursable resources for environmental infrastructure projects in the U.S.-Mexico border region. Pursuant to a Cooperative Agreement (Agreement) with EPA, EPA will make funds available to the BEIF and will allow those funds to be used to support EPA-approved projects in accordance with the terms and conditions specified in the Agreement. The Infrastructure Fund may be used for projects on both sides of the United States-Mexico border located within 100 km of the international boundary. To the extent that projects are financially assisted by any Mexican institution on the Mexican side of the border, or.by state-sponsored programs on the U.S. side of the border, consultation with and support from the concerned agency or organization will be a critical factor in obtaining EPA agreement to proceed with grant support of a specific project, In all cases the EPA will make the final decision to provide grant assistance.

PURPOSES OF THE BEIF

The goals of the BEIF are to:

1. Facilitate the expansion and improvement of water and wastewater environmental infrastructure in the United States-Mexico border region by providing coordinated financial support for the construction of projects and related activities.

2. Improve cooperation and coordination and assure the efficient flow of funds and the fiduciary soundness of financial management practices among all private and public sector parties with respect to financial support provided by those parties for constructing environmental infrastructure in the U.S.-Mexico border region, particularly with respect to financial cooperation among the Bank, EPA and CNA.

3. When appropriate, the BEIF will work in tandem with the Bank's Cooperative Credit Program, which, in conjunction with existing state and local programs, provides loan and loan guaranty support to small border communities that need environmental infrastructure improvements.

AUTHORIZED USE OF BEIF FUNDS

In order to make such projects affordable to the relevant community, EPA funds may be used in conjunction with grants and loans from other sources for the final design and construction of water and wastewater projects. A project may receive both transition and construction grant assistance from the BEIF.

1. Transition assistance may be used to ease a community's adjustment to higher user fees over time by providing capitalized interest funds over a 5 to 7-year period; or to foster regionalization by providing funds to support the debt service costs of regional plants as service levels reach targeted demand in neighboring communities.

2. Construction assistance may be used to pay final design and construction costs which are not funded by other sources,

BASIC REQUIREMENTS FOR U.S. PROJECTS

To be eligible for consideration for BEIF grant assistance, projects must meet EPA project selection criteria (see Appendix A), including associated affordability guidelines (see Appendix B). These guidelines include an eligibility benchmark that is explained below.

AFFORDABILITY AND THE ELIGIBILITY BENCHMARK

Affordability is a measure of a community's ability to pay the cost of water and wastewater infrastructure. Although other factors may be taken into consideration, the fundamental determinant of affordability is the ratio of cost per household to median household income (CPH/MHI), These terms and the method used to calculate them are explained below. The EPA uses a CPH/MHI benchmark of 1.7% to determine eligibility for construction grant funds under the BEIF. This is referred to as the Eligibility Benchmark. The EPA and the Bank expect communities to pay all project costs up to the point that CPH/MHI equals 1.7%. Projects with costs in excess of those that produce a CPH/MHI of 1.7% are ELIGIBLE for consideration of construction grant assistance from the BEIF. If a project requires rate increases related to debt service of 5% or more per year, the project is ELIGIBLE for transition grant assistance from the BEIF. A CPH/MHI in excess of 1.7% or rate increases related to debt service of 5% or more per year neither guarantee a commitment by EPA to provide any grant funds, nor signify a specific level of grant funding.

All funding decisions will be made on a project-by-project basis.

BECC FINANCIAL FEASIBILITY CRITERION

To receive BEIF grant assistance, a project must be certified by the Border Environment Cooperation Commission (BECC). An essential criterion that must be met for BECC certification is financial feasibility and project management. Financial Feasibility is a determination of whether or not revenues are sufficient to cover debt service and operations and maintenance (O&M) costs.

Financial Feasibility is different than Affordability. Affordability is a determination of whether debt service and O&M costs of a project when added to existing debt service and O&M result in a cost per household greater than 1.7% of median household income. This determination is made by the Bank and is required to be eligible for grant assistance from the BEIF.

METHOD OF ANALYSIS

The Bank will use the following method to determine project affordability and make recommendations of BEIF grant assistance:

CALCULATIONS TO DETERMINE PROJECT AFFORDABILITY

The project sponsor must provide a seven-year financial statement projection for its existing water and/or wastewater system. This must include a revenue and expense statement (income statement or profit and loss statement is also acceptable). This projection must show all revenue sources and all expenses including all operations and maintenance expenses as well as debt service (principal and interest). Balance sheet and cash flow statements are also requested.

The project sponsor must also provide a seven-year financial statement projection for the proposed project. This projection must show revenue generated by the project and related expenses including all operations and maintenance expenses as well as project-related debt service (principal and interest). For projection purposes, debt contracted for the project must be amortized over the useful life of the project or twenty-five years, whichever is lesser. Debt may include capitalized interest for the project construction period.

The seven-year projections of the existing system and the proposed project may be presented in one combined projection provided that the revenue and expense components of each are clearly identified. If consultant services are needed to assist in preparation of these projections, the Project Sponsor may apply to the BECC's Project Development Assistance Program to receive consideration for grant assistance.

All projections must be made in constant values (i.e. no inflation).

Projections should be made based on the project sponsor's fiscal year and the starting and ending date of the fiscal year should be specified. The project sponsor is responsible for the projections.

RATE INCREASES

The projections must indicate rates charged and any rate increases that may be required in order for cash flow from the existing system and the proposed project to be sufficient to meet debt service, O&M expenses. debt service and O&M reserve requirements, equipment replacement requirements, and debt coverage ratio requirements.

Projects that provide first time service and do not have a rate history will be analyzed on a case-by-case basis in order to determine eligibility for BEIF transition grant assistance. The cost of the alternative means for delivery of water and wastewater service currently in use will be taken into consideration.

COST PER HOUSEHOLD ("CPH") CALCULATION

Cost per household is calculated by dividing the sum of O&M and debt service costs attributable to household users by the number of households in the service area. O&M is calculated by adding the projected O&M of the existing system to the projected O&M of the proposed project. Debt service is calculated by adding the projected debt service of the existing system to the projected debt service of the proposed project. The amount of O&M and debt service attributable to household users is determined by multiplying the total amount of O&M and debt service by the percentage of the volume of water consumed by household users of the total volume of water billed to all users (household, commercial, industrial and governmental).

The O&M and debt service costs for both water and wastewater should be used in the CPH calculation.

The number of households is determined from the most recently available U.S, Census. In most cases, the most recently available U.S. Census data is from the 1990 Census that shows the number of households in 1989. The Bank will inflate this number by the historical flve-year compound annual growth rate (CAGR) of the population of the service area. The U.S. Census Bureau definition of households '...includes the related family members and all unrelated persons,... A person living alone in a housing unit, or a group of unrelated persons sharing a housing unit as partners...'. The count of households excludes group quarters. This definition may vary from that used by many state agencies. For the purpose of calculating CPH, depreciation is not included as a cost.

MEDIAN HOUSEHOLD INCOME ("MHI") CALCULATION

Median Household Income is calculated by taking the MHI from the most recently available U.S. Census and inflating it with the Consumer Price Index ("CPI") available from the U.S. Bureau of Labor Statistics. The CPI most representative of the service area should be used. If available, the local CPI should be used. If a local GPI is not available, then the CPI of the next largest area or region shall be used.

PROJECT SCOPE

Grant assistance may be provided for stand-alone projects or projects that are part of a master plan or larger capital improvement program; however, the Bank strongly encourages projects to be part of a long-term master plan. In either case, the affordability analysis takes the financial projections of the existing system and adds the debt service and O&M costs of the proposed project. If grant assistance is requested for a project that is part of a larger capital improvement program, the project cost must be isolated from the cost of other components of the capital improvement program.

SERVICE AREA

Grant assistance is intended to benefit rate payers in the area that the project is designed to service. Provided that the project is within 100 kilometers of the U.S.-Mexico border, the physical location of a water or wastewater plant in the border city or community is not taken into consideration in the analysis.

UNAVAILABLE DATA

The Bank recognizes that data is unavailable or inadequate for some border communities. On a case-by-case basis, the Bank will determine alternative, objective sources of data that may be accepted to perform the affordability calculations.

RESULTS OF CALCULATIONS

If the calculations result in a cost per household greater than 1.7% of median household income, the project is ELIGIBLE for construction grant assistance from the BEIF. If a project requires rate increases related to debt service of 5% or more per year, the project is ELIGIBLE for transition grant assistance from the BEIF.

The purpose of grant assistance from the BEIF is to make high-priority water and wastewater projects affordable. The CPH/MHI measure of 1.7% is only used to determine eligibility and a project is deemed eligible if the CPH/MHI is in excess of 1.7% in any year of the 7-year projection. Project sponsors are expected to pay at least the debt service and O&M cost that result in a CPH/MHI of 1.7%. It is not intended for BEIF grant assistance to bring a project sponsor's CPH/MHI down to 1.7%.

Glossary of Terms

Affordability
A measure of a community's ability to pay the cost of water and wastewater infrastructure.

Consumer Price Index (CPI)
An index of prices used to measure the change in the price of basic goods and services in comparison to a fixed base period. The CPI is prepared by the U.S. Bureau of Labor Statistics.

Cost per Household
The average of operations and maintenance and debt service costs attributable to a single household in a service area.

Debt Service
On-going principal and interest payments.

Financial Statements
Audited income statement, balance sheet and cash flow statement.

Household
The person or people occupying a housing unit.

Median Income*
The amount which divides the income distribution into two equal groups, half having incomes above the median, half having incomes below the median. The medians for households, families, and unrelated individuals are based on all households, families, and unrelated individuals. The medians for persons are based on persons 15 years old and over with income.

Operations and Maintenance Expenses (O&M)
On-going expenses required for the efficient operation of a water or wastewater utility.

Regionalization
The provision of water and wastewater services to a service area beyond a single community.

Service Area
The area that includes rate payers whose rates will be affected by the project seeking BEIF grant assistance.

*U.S. Census Bureau

Determination of Grant Assistance

The Bank will determine basic eligibility for grant assistance utilizing the affordability analysis stated in this protocol and EPA's project selection criteria shown in Appendix A. Based on this initial determination of eligibility, the Bank shall be responsible for formulating proposals with respect to the appropriate mix of funds for transition and construction assistance, and shall present such proposals to EPA for its approval with an affordability analysis and sensitivity analysis.

The amount of grant assistance will vary on a project-by-project basis considering secondary factors such as the current debt burden of the project sponsor, the other sources of funding available, available grant resources, the ability of the project sponsor to assume debt to finance the project, and key socioeconomic indicators such as high unemployment in the service area. Consideration will be given to the rate structure resulting from the project compared to average regional rates.

Projects that can benefit from regionalization of facilities or services should not be adversely affected in terms of the priority, amount, or type of grant funding as a result of selecting a regional alternative.

EPA will provide the Bank with written response to each financing proposal. Projects that are approved for financing from the BEIF will include a specific financial commitment to that project. The decision will be based on the "deal sheet" setting forth the Bank's complete analysis of the project and addressing both EPA's project selection criteria and the Bank's Loan and Guaranty Policies and Operational Procedures. In all cases, the EPA makes the final decision to provide the Bank's BEIF grant assistance.

Upon receipt of EPA's final decision, the Bank will provide the Project Sponsor with written notice of such decision. Copies of that notice shall be provided to EPA, the associated state and community (if other than the Project Sponsor).

Checklist of Information Required for Affordability Analysis

1. Seven-year cash flow projection of existing water and wastewater system that takes into consideration O&M expenses and debt service for existing system.

2. Seven-year cash flow projection of proposed project that takes into consideration O&M expenses and debt service for the proposed project.

3. Number of households in service area. Use U.S. Census Bureau definition of "Household".

4. Consumer Price Index for the service area for 1990-1996.

5. Water and wastewater volume by user type (commercial, industrial, residential, governmental)

6. Capital improvement program with all project descriptions and estimated costs. If any projects are in process, include amount spent to date and approximate percentage of completion.

7. Any additional documentation that would create an accurate and complete picture of the project sponsor's financial capability.

AFFORDABILITY ANALYSIS FOR ANY BORDER CITY, ANY BORDER STATE

		1	2	3	4	5	6	7
	Census 1990	**Fiscal Year 1998**	**Fiscal Year 1999**	**Fiscal Year 2000**	**Fiscal Year 2001**	**Fiscal Year 2002**	**Fiscal Year 2003**	**Fiscal Year 2004**
O&M Existing Water System[1]		20,000,000	20,500,000	21,000,000	21,500,000	22,000,000	22,500,000	23,000,000
O&M Existing Wastewater System[1]		28,600,000	29,000,000	29,600,000	30,200,000	30,700,000	31,500,000	32,100,000
O&M New Project[3]		10,000,000	10,250,000	10,500,000	10,750,000	11,000,000	11,250,000	11,500,00
Debt Service Existing Water System[1]		7,000,000	7,200,000	7,400,000	7,600,000	7,800,000	8,000,000	8,200,000
Debt Service Existing Wastewater System[1]		10,000,000	10,300,000	10,600,000	10,900,000	11,200,000	11,500,000	11,800,000
Additional Debt Service New Project[3]		4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Cash Expenses for Current Operations		79,600,000	81,250,000	83,100,000	84,950,000	86,700,000	88,750,000	90,600,00
Household Water Usage (gd)[1]		50,000,000	51,000,000	52,500,000	54,000,000	55,500,000	57,000,000	59,000,000
Commercial Water Usage (gd)[1]		8,000,000	8,150,000	8,300,000	8,450,000	8,600,000	8,750,000	8,900,000
Industrial Water Usage (gd)[1]		5,000,000	5,050,505	5,105,105	5,205,206	5,305,305	5,405,405	5,505,505
Governmental Water Usage (gd)[1]		20,000,000	20,200,000	20,500,000	20,700,000	21,000,000	21,350,000	21,500,000
Percentage of Cash Expenses Attributable to Households		60.24%	60.43%	60.76%	61.12%	61.39%	61.62%	61.17%
Number of Households[4]	90,000	102,905	104,449	106,015	107,606	109,2205	110,8585	112,521
Annual Cost Per Household (CPH)		$ 465.98	$ 470.05	$ 476.27	$ 482.49	$ 487.32	$ 493.30	$ 500.56
Any Border City Median Household Income (MH)[5]	$ 20,000	$ 25,600	$ 26,022	$ 26,451	$ 26,887	$ 27,330	$ 27,781	$ 28,239
CPH as a Percentage of Any Border City MHI		1.82%	1.81%	1.80%	1.79%	1.78%	1.78%	1.77%
Benchmark		1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%

[1] Any Border City Waterworks 7-Year Financial Plan
[2] Book, Engs & Billings Consulting Engineers, Inc. Project Forecast for Any Border City
[3] Raitts & Markups Financial Advisors
[4] 1990 U.S. Census Data. Population inflated by CAGR of 1.5% per year 1989-1998.
[5] 1990 U.S. Census Data. MHI inflated by local CPI of 28% from 1989 through 1998 and then inflated by estimated CPI of 1.65% per year for 1999-2004.

EPA PROJECT SELECTION CRITERIA

(1) Projects must address priority human health and/or ecological issues. Priority will be given to those projects likely to have the most impact.

(2) Projects must have U.S.-side benefits. Priority will be given to those projects with benefits on both sides of the border.

(3) BECC-certified projects only will be selected (except for projects already underway).

(4) Priority will be given to projects with maximum funding from other sources and where program funding is necessary to complete financing of the project.

(5) Adequate planning and operations and maintenance provisions are prerequisites to detailed design and construction financing.

(6) Community infrastructure only will be selected.

(7) For drinking water projects, drinking water quality projects only will be selected, not raw water supply. Therefore, only drinking water treatment plants and treated water distribution systems will be covered.

(8) Projects where the discharge is directly or indirectly to U.S.-side waters, must target achievement of U.S. norms for ambient water quality in U.S—side waters, although infrastructure development may be phased over time. Any flow reductions that result from implementation of non-discharging alternatives must not threaten U.S. or shared ecosystems.

EPA'S AFFORDABILITY GUIDELINES

MEMORANDUM

SUBJECT: Border Infrastructure Grants Program Project Affordability Guidelines

FROM: Robert Perciasepe, Assistant Administrator
TO: Regional Administrators Region IX and Region VI

My memorandum of September 12,1996, established the eight Project Selection Criteria the Environmental Protection Agency (EPA) will use in determining which eligible border area projects will have the highest priority for EPA grants. One specific criterion (the affordability criterion) states that priority will be given to projects with maximum funding from other sources and where program funding is necessary to complete financing of the project. We have received several requests that we further refine this specific criterion to provide a clear statement of which projects have highest priority based on the ability of the project sponsor to obtain financing from other sources and the effect of grant funding on the affordability of the project to the ultimate users. This memorandum clarifies and further elaborates the affordability criterion for grant funding.

The basic concept is that grant funds be applied toward projects where the value of the grant funds has the greatest marginal benefit. In general, the marginal benefit is increased when the grant funds are used in tandem with other financial resources and when the assistance is targeted toward project costs that are above what could normally be financed by the project sponsor's sources of credit. Furthermore, grant funding is very important when the costs to the ultimate users (rate payers) from the use of credit mechanisms result in rate increases that are not sustainable or realistic.

THE POLICY

Funding priority will be given to eligible water and wastewater projects where grant funding is essential to make facilities affordable to their ultimate users. This broad statement of policy applies to projects on either side of the border.

The implementation of this policy should be tailored to accommodate the differences in the U.S. and Mexico regarding governmental organizations, institutional relationships and responsibilities, financial instruments and information required to support project financing.

THE PROCESS

For projects on either side of the border the process involves the following:

1. Before obtaining a formal financial commitment from EPA for construction funding, the project sponsor (generally with the support of North American Development Bank (NADBank) and in conjunction with the project development efforts of the Border Environment Cooperation Commission (BECC)) must conduct a financial analysis of the existing water and wastewater system and the proposed improvements to determine the capital, operating and maintenance costs of the existing system and the changes in local costs associated with the proposed project.

2. When construction funding is formally requested under the EPA-NADBank Cooperative Agreement, the EPA's regional offices must review the NADBank's submission and accompanying analysis addressing the affordability of a project. The NADBank submission should provide detail

   on the financial feasibility of the project and the estimated user burden associated with the project proposal. The submission should provide information adequate to determine capital and operating costs, sources of funding and financial feasibility of the project. In the context of the cooperative agreement, two financial mechanisms are available; a buy down of project costs or transition assistance that makes loan repayments affordable to the ultimate users.

THE GUIDANCE

In Mexico, Comisión Nacional Del Agua (CNA) applies its formula for determining which projects are deemed affordable, The results of this financial analysis, on the Mexican side, will be reflected in the BECC's certification documents and in the NADBank's financing proposals. On the U.S. side of the border, the guidance and benchmark measures described in this memorandum establish a framework for conducting an affordability assessment.

An affordability assessment should identify current operations and maintenance and debt retirement costs and estimate the changes in operations and maintenance and financing costs that relate to the proposed project. The financial analysis should consider alternatives for the project sponsor to proceed with construction of the project based on a combination of financing and grant funding of the proposed costs. The benchmark measures contained in this memorandum establish guidelines on identifying projects that appear to be affordable without EPA grant funding. For the most part, projects that are affordable should be financed with maximum reliance on loan and credit mechanisms.

A consistent approach to establishing costs is an essential element in conducting a financial assessment of the proposed project- The following general steps are applicable to establishing a cost basis for both water and wastewater projects:

1. Determine the project sponsor's total project costs by establishing the current costs for existing water or wastewater services and estimate the changes in annualized cost for any proposed project.

   a. The current costs are defined as current annual operating and maintenance expenses (excluding depreciation) plus current annual debt service (principal and interest). This represents the cash expenses for current operations.

   b. The estimated project costs for the proposed project should include projected changes in operation and maintenance and debt service expenses. These costs are adjusted to current dollars (i.e. deflated).

2. After estimating changes in the annualized costs that result from the proposed project, then calculate the residential share of the total costs. The residential or household costs should exclude the portion of expenses attributable to commercial, governmental and industrial users.

3. Determine the project's financial impact on users in the context of the benchmark measures established in this memorandum.

BENCHMARK MEASURES FOR ASSESSING THE IMPACT OF U.S. WATER AND WASTEWATER PROJECT COSTS ON USERS

The following benchmark measures will help evaluate user burden and the amount and type of funding assistance required.

1. Consider the project sponsor's cost per household (CPH) as a percentage of the local median household income (MHI). If the current and estimated project costs of the water and wastewater services result in a CPH of less than 1.7 percent of MHI, the project has a low impact and should be considered affordable. Project sponsors should be expected to fully finance costs that are within the affordable range. For costs that are above the benchmark level, the appropriate amount of grant funding and type of assistance will vary on a project-by-project basis considering secondary factors such as the current debt burden of the project sponsor, other sources of funding available, the ability of the project sponsor to assume debt to finance the project, and key socioeconomic indicators such as high unemployment in the service area.

2. Focus on the rate increases that result from the credit financing of the proposed project. If the debt retirement related increases exceed 5 percent per annum, it may be difficult to sustain the rate increases and some form of transition assistance from this program should be a priority — working in conjunction with available sources of credit. If the debt retirement increases exceed 10 percent per annum, the additional user burden has a high impact that may not be adequately addressed under a five-to seven-year transition fund arrangement, and grant financing may be necessary to buy down the costs of the proposed project. Again, as in the example of the above benchmark measures, the project sponsors should be expected to finance costs below the benchmark measures.

Projects that are determined to exceed the above benchmark measures and thus receive EPA funding are expected to proceed to construction as soon as appropriate approvals can be rendered. Projects that can benefit from regionalization of facilities or services should not be adversely affected in terms of the priority, amount, or type of grant funding as a result of selecting a regional alternative.

IMPLEMENTATION

This affordability policy will be implemented through EPA's Cooperative Agreement with the NAD Bank. Under the cooperative agreement the NADBank will be charged with preparing project affordability and financial feasibility assessments.

If you have questions, contact me or Fred Lindsey at (202)260-5853.

GLOBAL TECHNOLOGY NETWORK (GTN)

GLOBAL TECHNOLOGY NETWORK (GTN)

...the point of contact for U.S. firms interested in business opportunities in USAID countries

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

The United States Agency for International Development (USAID) is an independent government agency that provides economic development and humanitarian assistance to advance U.S. economic and political interests overseas. USAID supports programs aimed at:

- promoting sustainable economic growth,
- stabilizing population growth and protecting human health,
- protecting the environment,
- advancing democracy,
- providing humanitarian relief, and
- assisting nations in transitions.

GLOBAL TECHNOLOGY NETWORK (GTN)

USAID's Global Technology Network (GTN) facilitates the transfer of U.S. technology to USAID-assisted countries and regions. As USAID missions and local partners identify problems, GTN, through its databases, can match the developing country's needs with specific U.S. companies having the appropriate technologies to address the problem. Through this process, GTN promotes the use of private sector solutions and approaches in USAID development assistance programming.

GTN focuses on identifying targeted international business opportunities in health, energy and environment, agribusiness, and information technology. Opportunities are identified by the USAID missions and a network of participating in-country public and private sector technical representatives. The technology opportunities/trade leads are electronically matched with U.S. firms registered in GTN's sector databases. Trade lead information is then faxed to the appropriate U.S. companies.

GLOBAL TECHNOLOGY SECTORS

ENVIRONMENTAL TECHNOLOGY

GTN has the resources of 2,000 U.S. environmental firms covering 484 different sub-sectors within the environment. This network provides USAID missions and developing countries access to a database that can make a very targeted match of U.S. technology with a specific environmental requirement. GTN currently manages two regionally focused environmental networks, the Americas and Asia.

The Environmental Technology Network for Asia was developed by USAID's Global Bureau and the United States-Asia Environmental Partnership (US-AEP). ETNA facilitates the transfer of U.S. environmental technology to address environmental concerns in India, Indonesia, Philippines, Sri Lanka, Thailand, and other parts of Asia. The U.S. Department of Commerce provides USAID with in-country environmental information.

The Environmental Technology Network for the Americas is a joint program between USAID's Global Bureau and the U.S. Department of Commerce. ETNA facilitates the transfer of U.S. environmental

technology to address environmental concerns in Bolivia, Brazil, Ecuador, Mexico, Paraguay, Peru, Argentina, Chile, Costa Rica, and other parts of Latin America.

AGRICULTURE TECHNOLOGY

GTN uses 80 sub-sectors within four basic areas in agribusiness: agricultural systems development supports institutions; better management of improved and sustainable agricultural practices; and, enhancement of social, economic, and technical capacities of agribusinesses for a more effective use of outside resources. The production codes address agricultural inputs. The range of processing and post harvest management includes post harvest technology, transformation, storage, packaging, finished-product marketing, distribution, quality control, and infrastructure development. Agricultural products are listed by basic commodity categories.

HEALTH & POPULATION TECHNOLOGY

GTN developed 70 sub-sectors covering basic areas in the health and population field in order to strategically identify and track health and population needs in developing countries. Included are health and population care centers; education; economics; manpower; management; service delivery; vehicles; environment; medical supplies/equipment; and pharmaceuticals.

COMMUNICATION & INFORMATION TECHNOLOGY

GTN tracks a broad range of activities such as computer technology, education and training, and telecommunication infrastructure. These activities are based on five principles: (1) encouraging private investment, (2) promoting competition, (3) creating a flexible regulatory framework, (4) providing open access, and (5) ensuring universal access.

AFRICA TECHNOLOGY NETWORK (ATN)

ATN is network designed to foster economic growth through private partnerships, investment, and technology transfer. Firms are registered in GTN's internet based Advanced Trade Lead System (ATLaS) which links the U.S. companies with opportunities throughout Sub Saharan Africa. ATN is a joint activity of USAID's Global and Africa Bureaus, and is funded by the Leland Initiative.

CENTER FOR TRADE & INVESTMENT SERVICES (CTIS)

Business Counseling - CTIS provides in-depth international business counseling to firms interested in contracting and procurement opportunities with USAID, and /or expanding to those markets where USAID has a presence.

Information Services & Publications - CTIS develops and disseminates comprehensive industry and regional business resource guides on USAID and international development programs.

Conference Marketing - CTIS assists USAID Missions and related organizations in marketing conferences, seminars, and workshops that complement the strategic objectives of USAID.

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